

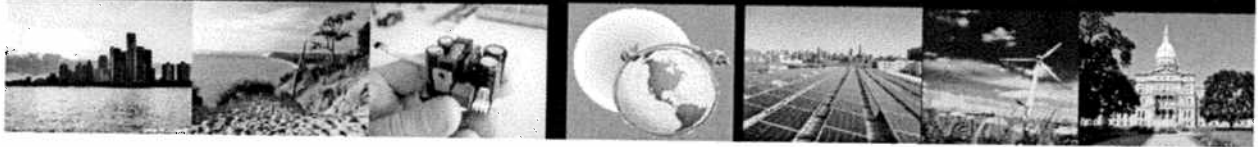
# Land Policy Institute

## *Legislative Luncheon Series*



February 11<sup>th</sup>, 2009

MICHIGAN STATE  
UNIVERSITY



# Chasing the Past or Investing in Our Future Placemaking for Prosperity in the New Economy



LAND POLICY  
INSTITUTE

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## Current Status of the US Economy

- Long-term economic slowdown means local economic development is a zero-sum game.
- Places now compete for what came automatically.
- Local units of government and states strapped.
- Feds now banker/funder of last resort.
  - Federal deficit now at \$10.7 trillion (or \$35K/capita)
  - Federal foreign debt now \$3 trillion (or \$10K/capita).
- **Michigan is the epitome of this problem.**
- Rules of economic development have changed due to globalization and the New Economy.

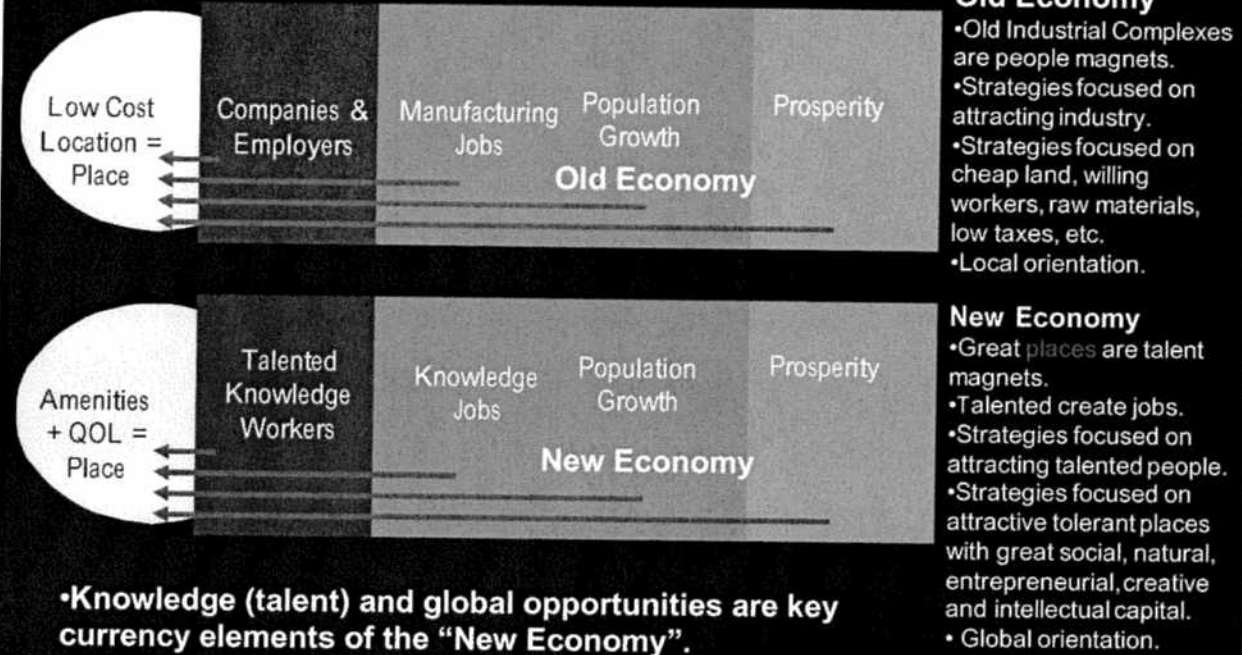
## How Did We Get Here?

- Nation built on foundation of "production places."
- Prosperous places combined skilled workers with capital.
- Required managers to manufacture from raw materials.
- Places defined by what they produced.
- City regions anchored prosperity and growth was assured.
- Skilled production workers constituted an ever growing middle class of consumers.
- Separation between "communities of production" and "communities of place" began in the 1970s.
- Globalization and Information/Communications Technology (IT) changed everything in the 1990s.
- **Current economic crisis exacerbates the problem.**

## Globalization

- Growing private equity, capital, wealth.
  - 178 new billionaires worldwide in 2008 (19% more).
  - 19 Russians, 14 Indians, 13 Chinese, and 10 Spaniards.
  - Asia went from 4 to 14 in # of richest 25 people.
  - North America slipped from 14 to 5.
- Growing middle class in poor countries means economic activity is shifting.
  - By 2025, **India's** middle class will be 10 times larger, and China will have the world's largest.
  - In **Brazil**, customers have to wait three months to get a car.
  - In **Russia**, consumer spending grew by 24% in 2007.
    - Personal disposable income will double by 2010.
- In India and Russia, sales of computers, DVDs, televisions, microwaves, and cars each increased a minimum of 25% per year.
- Emerging economies will spend over \$22 trillion on infrastructure over the next 10 years, of which China will account for 43% (Morgan Stanley, 2008).
- **Guess where manufacturing is shifting!**

## Place and Place-making in the New Economy Paradigm



## The Effects of the New Economy

- From 1990, IT allowed new high valued products that integrate:
  - Technology into manufactured goods;
  - Technology into service goods;
  - Service into manufactured goods.
- Manufacturing component of current high value goods are very small.
- Service share of US economic output now at about 70%.
- Fastest growing segment of the economy involve high-tech products, high-tech services, and services that integrate knowledge and creativity.
- Even for high-tech products and services, value accrues to the innovator, entrepreneur and knowledge workers, not to skilled production workers.
- Communities of production now capture much less value, and are saddled by legacy and structural issues which make it difficult to rebound.

## Implications of the New Economy

- Population no longer tied to places, and knowledge class more mobile on landscape.
- Communities and states now compete for prosperity in a zero-sum game.
- Old economic development strategies, based on production model, are no longer effective.
- Business attraction and retention strategies of the past now ineffective (Sands and Reese, 2008).
  - Growth companies more interested in value creation and not cost and tax saving.
  - New economy companies are more conscious about culture, amenities, community and assets.
- New phase of aggressive local competition for prosperity.
- **Communities and states looking for answers on what works.**

# What is Prosperity?

- A state of stable, reliable & secure growth, with rising employment, income & overall quality of life, that ensures transcendental success.

Soji Adelaja, 2006 Michigan Prosperity Summit

$$P = \alpha \cdot i \cdot (v \cdot E) \cdot \sum_{n=0}^{\infty} \alpha^n (FA + OFA + MA)$$

Prosperity

Growth in  
per capita  
income

Average  
Employment  
Rate

Amenities Matrix:

- Fixed Assets
- Quasi-fixed Assets
- Mobile Assets

- We enjoyed one of the highest levels of prosperity in the world since WWII.
- Since WWII, real per capita income rose by 400% (over 4%/year).

# Prosperity and Place in the New Economy

$$P = \left[ \alpha \dot{I}_i \right] \left[ \gamma \overline{E}_i \right] \sum_{i=1}^n \sigma_i(\overline{FA}, QFA, MA)$$

• Decline in prosperity due to income and employment can be addressed by leveraging our fixed assets to attract mobile assets that are critical for the New Economy.

• This drives income and employment up.

## Economies of Places

- › Ownership structure of service and high-tech products leaves very little for the skilled worker.
- › Most services are local, and exportable services imply heavy local employment.
- › New Economy services also tend to employ many people locally.
- › Knowledge-class most potent economic drivers.
- › People Count, and their marginal impacts count more.
- The trick is population attraction, targeted toward high impact people (knowledge workers).
- **But what will bring who?**

## Any New Person Creates More than 1 Job

Top Employment Categories	Top Income Categories	Top Gross Local Product Categories
Food Service and Drinking Places (17%)	Offices of Physicians/ Dentists and other healthcare providers (14%)	Domestic trade (25%)
Offices of Physicians/ Dentists and other healthcare providers	Hospitals	Owner occupied dwelling
Hospitals	Food Service and Drinking Places	Foreign Trade
Real Estate	Real Estate	Real estate
Food and Beverage Stores	Motor vehicle and parts dealers	Offices of Physicians/Dentists and other healthcare providers
General Merchandise Stores	Food and Beverage Stores	Hospitals
Social Assistance (except child daycare)	Securities, commodities contracts, and investments	Monetary authorities and depository credit intermediaries
Nursing/Residential care facilities	Monetary authorities and depository credit intermediaries	Insurance carriers
Motor vehicle and parts dealers	Nursing/Residential care facilities	Motor vehicle and parts dealers
Clothing/Accessories stores	Insurance carriers	Food Service and Drinking Places
Misc. Retailers	General merchandise stores	State/Local Govt. (non-education)
Non-store retailers	Legal services	Petroleum Refineries
Civic/Social/Professional and Similar organizations	Building material and garden supply	Food and Beverage Stores

# Knowledge Workers Do Even Better

- Super Creative Core
  - Computer and Mathematical Occupations
  - Architecture and engineering occupations
  - Life, physical, and social science occupations
  - Education, training, and library occupations
  - Arts, design, entertainment, sports, and media occupations
- Creative Class
  - Management occupations
  - Business and financial operations occupations
  - Legal occupations
  - Healthcare practitioners and technical occupations
  - High-end sales and sales management

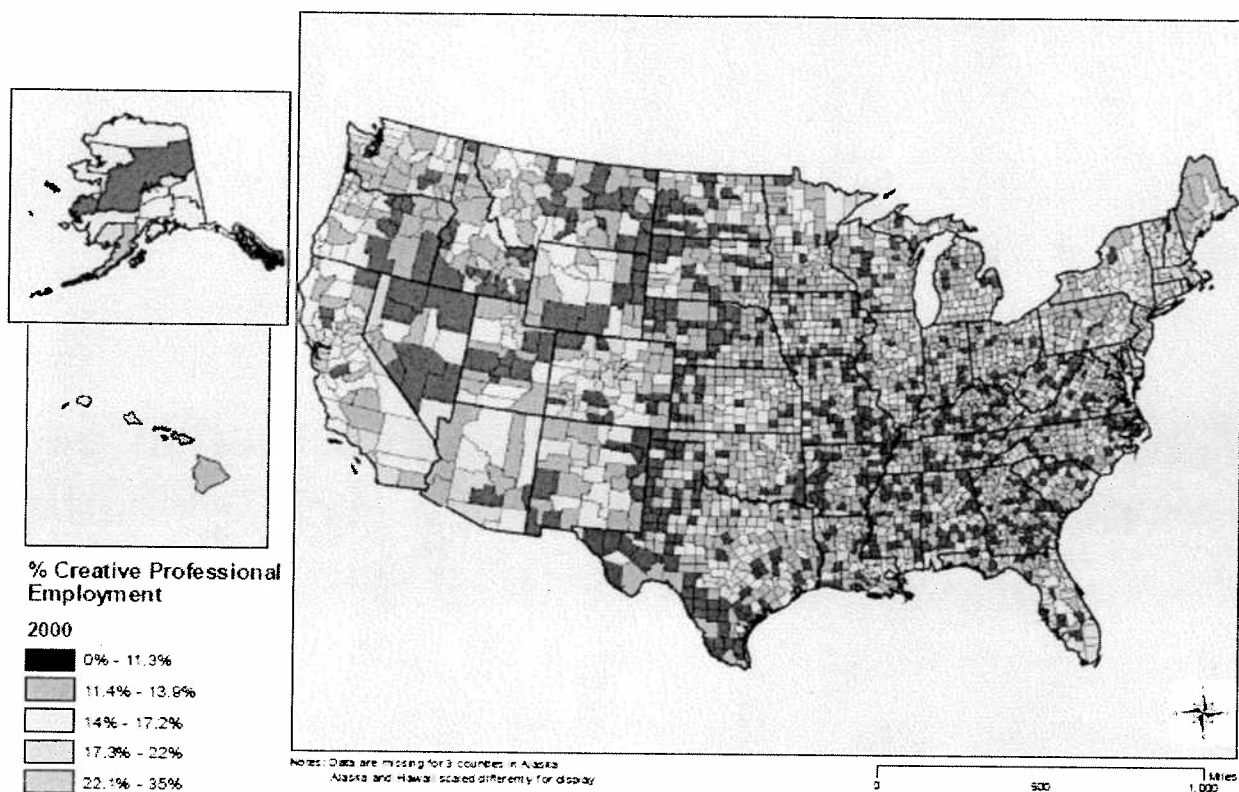
## Knowledge Workers

Knowledge workers seek and pursue amenities and quality of life. Rather than look for jobs, they look for interesting places, move there, and economic activity follows them, including the creation of a job for themselves.

What is their role in the new economy?

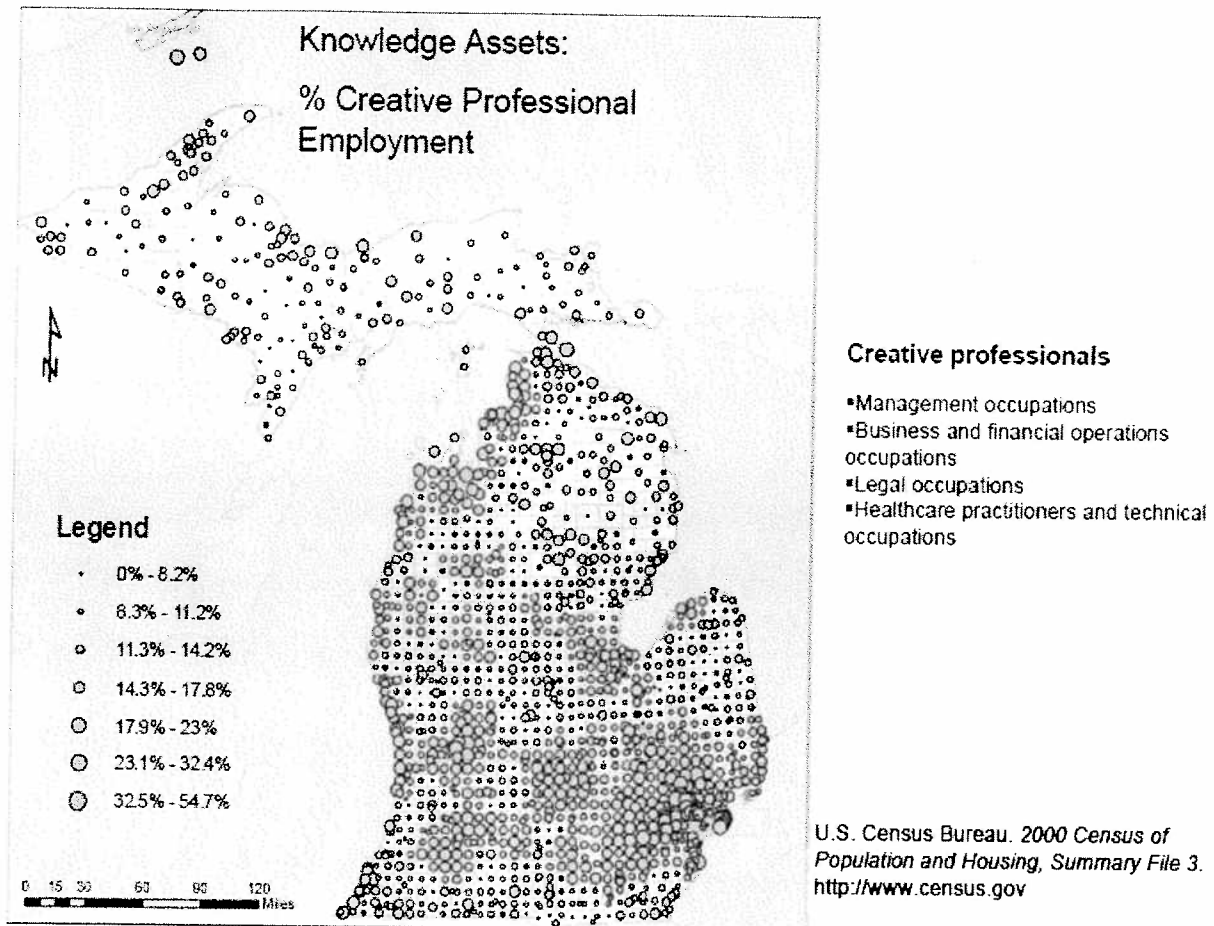
- They are high impact economic generators whose spending patterns create jobs, spur entrepreneurship and strengthen the local service economy.
- Their expenditures and work related activities bring money into the community.
- *24-35 year olds are buying for the first time.*
- *Over 65 don't take jobs but create jobs.*

## Creative Professionals Employment



Prepared by the Hannah Professor Research Program at the Land Policy Institute, Michigan State University, 2008

Source: U.S. Census Bureau, ESRI



# Economics of the New Economy

Old Economy:

$$Q = (K, L, M, N).$$

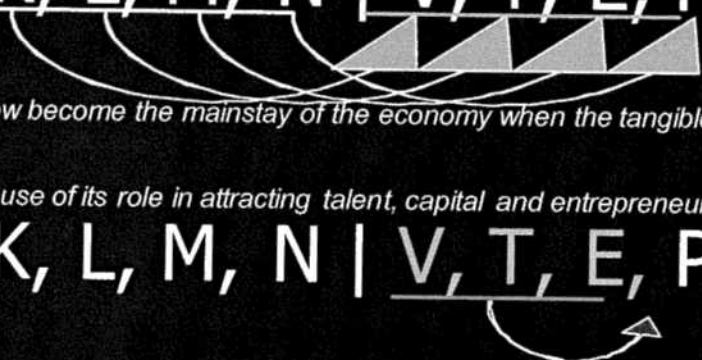
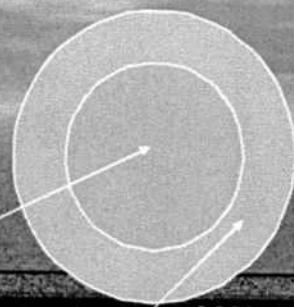
New Economy:

$$Q = (K, L, M, N | V, T, E, P).$$

• Previous intangibles have now become the mainstay of the economy when the tangibles are not so relevant anymore.

• Place is most important because of its role in attracting talent, capital and entrepreneurs.

$$Q = (K, L, M, N | \underline{V, T, E, P}).$$



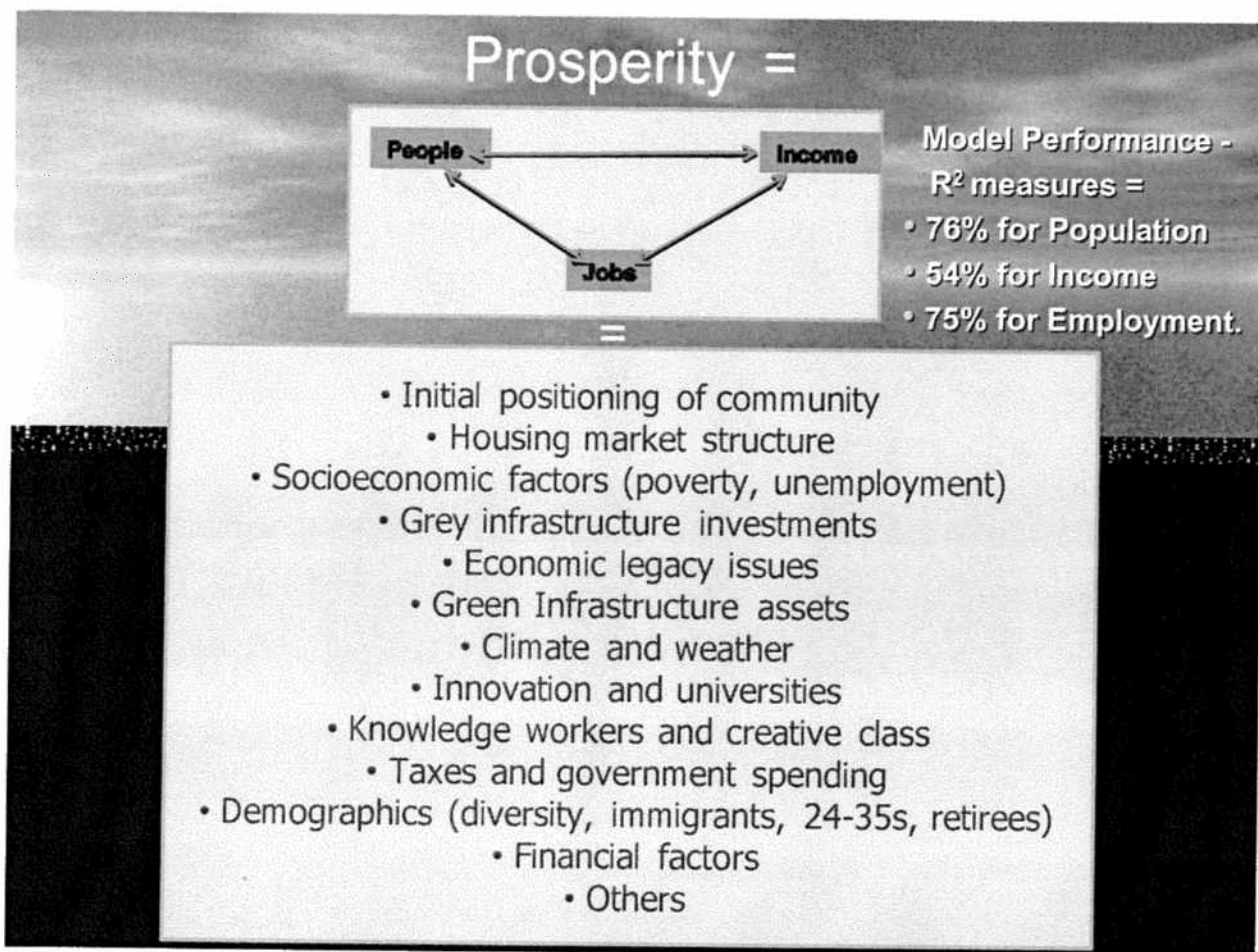
## Building a New Economy (Studies)

- Attract knowledge workers, creative class and immigrants – (Florida, 2002; Battista, 2007; Glazer, 2008). To do that:
  - Improve urban and rural amenities – (Clark, 2002, Florida 2002).
  - Improve institutions/governance/regional foresight – (Ibid).
  - Enhance IT infrastructure (telecom) – (Hackler, 2003).
  - Build private-public partnerships – (Malecki, 2002; Chapple, et al. 2004).
  - Enhance the role of Universities in economic development – (Bozeman, 2000; Etzkowitz, 2000).
  - Create attractive downtowns – (Levy, 2001).
  - Cluster the creative class – (Wu, 2005).
  - Improve tolerance and diversity – (Florida, 2000).

- Studies based on expertise of researchers, often conflict and offer partial solutions.
- **Communities Need Solutions, Not Convolutions.**

## LPI New Economy Growth Decomposition Study (U.S.)

- › Integrated analysis of sources of economic growth in the U.S., considering new drivers in the New Economy.
- Prosperity decomposed in to income, employment and population.
- Data covered counties in the entire country.
- Framework allows comparative analysis of alternative strategies and the relative impacts of talent, green infrastructure, creative class employment, innovation, diversity, etc.
- Unique dynamic model that allows observation of what works in urban and rural settings.
- To be released before February 27.



## Prosperity Elements are Interdependent

- Population, Jobs & Incomes go together.
  - Places that attract people also attract jobs, and vice versa.
    - 1% more people means 0.75% more job.
    - 1% more jobs means 0.78% more people.
  - Places that attract jobs create better incomes.
    - 100 more jobs means \$5 more per capita income.
    - 100,000 more jobs means \$5,000 more in per capita income.
- Michigan's loss of 300,000+ jobs equals to +\$15,000 in per capita income loss.

## Demographics

- Young, Retirees and Immigrants :
  - Places with more 24-35 year olds create more jobs without losing population. 1% more young people means
    - 539 more jobs.
  - Places with more retirees create more jobs, but lose population. 1% more retirees means
    - 213 more jobs.
    - 387 less population.
- Places with more foreign born people grow population and create more jobs. 1% more foreign born people means:
  - 654 more jobs (in metro counties).
  - 656 more people.

## Housing Market

### • Vacancy and Home Values:

- Housing vacancy is a growth detractor. 1% rise in vacant homes means:
  - 0 impact on jobs
  - 163 less people
  - \$28 decline in per capita income.
- More expensive homes means more population and income, but less jobs. \$100 rise in home value means:
  - 17 less jobs
  - 8 more people
  - \$4.5 rise in income.
- Affordable housing helps jobs, but lowers income.
- Abandonment and vacancy hurts the economy.

## Education and Government

- Education (Human Capital):
  - 1% more college graduates means:
    - 190 more jobs
    - \$25 more per capita income
    - 554 additional people.
  - If you have a college or university, great for population and jobs. In metro counties, a college or university town means:
    - 1,336 more jobs
    - 2,208 more people.
- Role of Government (Taxes to Services Ratio):
  - 1 unit higher ratio means 26 less people in metro counties and 956 less people in non-metro areas.

## Grey Infrastructure

- Spending on roads, airport, and broadband capacity means more people, income and jobs:
  - A 1 unit increase in infrastructure index means:
    - 541 more jobs
    - 447 more people
    - \$81 more in per capita income.

## Green Infrastructure

- Developed Amenities Index (1 point increase in index of parks, trails, picnic areas, golf courses, etc) means:
  - 2,322 more jobs
  - 1,726 more people.
- Water Amenity Index (1 point increase in index of marinas, fishing lakes, scenic rivers, etc) means:
  - 522 more jobs
  - \$7.47 more in per capita income
  - 563 less people.
- Winter Amenities Index (1 point increase in index of ski areas, cross-country skis, etc) means:
  - \$73 more in per capita income in rural areas.
  - 73 more jobs in rural areas.
  - 491 less people.
- Climate Amenities Index (1 point increase in index of sunshine days and average January/July temperature) means:
  - 3,132 more people in metro areas
  - 319 more people in non-metro areas
  - \$12.14 less in per capita income.
- Amenities in general create jobs, enhance income and attract people.

## Economic Legacy Issues

- Economic legacy effects on population:
  - Impact of 1% increase in share of:
    - Finance/real estate services = 2,080 more people.
    - General services = 318 more people.
    - Manufacturing = 19 more persons.
    - Agriculture = 0 persons (positive results in rural areas).
- Economic legacy effects on per capita income:
  - Impact of 1% increase in share of:
    - Finance and real estate services = \$306 more income (higher in urban areas).
    - General services = \$34 more income.
    - Manufacturing = \$23 more income.
    - Agriculture = \$0 more income (more in rural areas).
- Economic legacy does not constrain jobs.
  - Finding means that new jobs can be created independent of our past economic structure and legacy.

## Other New Economy Factors

- Creative Class Employment: 1% more creative class employment means:
  - 287 more jobs in metro counties, but 0 in rural counties.
  - \$23 more in per capita income for rural counties, but \$0 for urban counties.
- Average patents (1990-1993): 1 more patent means:
  - 392 more jobs
  - \$1.34 more in per capita income.
- Racial Diversity: no impact on jobs, population or income (positive impact at the state level from How States Grow study).

## Conclusions

- First national study comprehensively decomposing growth.
- Past studies offered partial suggestions but never full picture on strategy.
- We go beyond talent attraction to explain what attracts talent and therefore drives economic growth.
- We also show the impacts of segments of the population (all people are good, but some are better than others!)
- Communities across Michigan and the state will be receiving anywhere from \$15-\$20 billion in ARRA money soon.
- How many of them will spend it on attracting knowledge workers through investing in green infrastructure and placemaking strategies for the New Economy?
- We need to specifically target 24-35 year olds, high equity/talent immigrants, senior citizens (retirees), and others who are more entrepreneurial and can add value to a region.
- Can only do this regionally (economic vs. government regions not same).
- **Economic development requires real strategies today.**

## LPI studies soon to be released

- Chasing our past or investing in our future?
- Michigan's critical assets.
- Assets and prosperity in the New Economy.
- When people leave, what jobs do they take with them?
- How New Economy Assets move people.
- Talent competition and national prosperity.
- What is place?
- National Prosperity Index.
- How states grow?
- TIDE (Talent, Innovation, Diversity and Environment) ranking of Michigan communities.